

Message Text

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 CEA-01
DODE-00 H-01 INT-05 L-03 NSC-05 PA-01 CTME-00
SS-15 STR-07 ITC-01 SOE-02 DOE-15 /132 W
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R 090803Z MAY 78
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 4078
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY MANILA
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
AMCONSUL HONG KONG
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 3983

GENEVA FOR MTN/GRAEF

E.O.11652: GDS
TAGS: ASEAN, ETRD, EAID, EMIN, ENGR, JA, MY
SUBJECT: MITI MINISTER'S VISIT TO MALAYSIA

REF: SINGAPORE 2013

1. SUMMARY: JAPAN'S MINISTER OF INTERNATIONAL TRADE AND INDUSTRY, TOSHIO KOMOTO, HELD MEETINGS WITH SENIOR GOM OFFICIALS ON MAY 4-5. THE MAIN AREAS OF DISCUSSION WERE IN TRADE, ASEAN/JAPANESE RELATIONS, INVESTMENT, AID, STABEX AND PETROCHEMICALS. BASICALLY, THE JAPANESE SIDE OFFERED LITTLE IN THE WAY OF SOLID COMMITMENTS IN ANY OF THESE AREAS TO THE GOM AND, AS A RESULT, THE MALAYSIANS ARE QUITE CLEARLY DISAPPOINTED

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WITH THE OUTCOME OF THE TALKS. THIS IS DUE TO THE MALAYSIANS HAVING ENTERED THE MEETINGS WITH VERY HIGH EXPECTATIONS THAT KOMOTO WOULD BE COMING AS A BEARER OF GOOD NEWS, ESPECIALLY ON THE TRADE SIDE. THE JAPANESE, FOR EXACTLY THE SAME REASONS-- LACK OF BINDING COMMITMENTS -- ARE QUITE PLEASED WITH THE OUTCOME OF THE MEETINGS. IT SEEMS LIKELY

THAT THE GOM WILL NOW REASSESS THE OPTIMISTIC VIEW
THAT PREVAILED BEFORE THE MINISTER'S ARRIVAL.

2. JAPAN'S MINISTER OF INTERNATIONAL TRADE AND INDUSTRY, TOSHIO KOMOTO, VISITED MALAYSIA MAY 4 - 5 FOR TALKS WITH SENIOR GOM OFFICIALS, INCLUDING PM HUSSEIN ONN AND DEPUTY PRIME MINISTER DR. MAHATHIR BIN MOHAMAD (WHO ALSO HOLDS THE TRADE AND INDUSTRY PORTFOLIO). PRESS COVERAGE ON THESE TALKS WAS EXTENSIVE, WITH THE ENGLISH LANGUAGE BUSINESS TIMES HEADLINING ITS FINAL REPORT ON THE VISIT "A JAPANESE REBUFF AT EVERY TURN." THIS REFERS TO THE FACT THAT MR. KOMOTO WAS UNABLE TO GIVE MORE THAN AN ASSURANCE OF "POSITIVE CONSIDERATION" FOR MOST OF THE TRADE REQUESTS PUT FORWARD BY THE MALAYSIAN SIDE.

3. ON ITS PART, THE GOM INDICATED INTEREST IN THREE SPECIFIC AREAS: (A) TRADE, (B) ASEAN/GOJ RELATIONS, AND (C) INVESTMENT. WITH RESPECT TO TRADE, THE GOM REQUESTED THAT JAPAN CONSIDER IMPOSING A 5 PERCENT IMPORT DUTY ON LOGS IN ORDER TO DISCOURAGE THE IMPORTATION OF ROUND LOGS FROM SOUTHEAST ASIA. THE GOM BELIEVES SUCH A STEP WOULD ENCOURAGE THE PROCESSING OF THOSE LOGS IN THE COUNTRIES CONCERNED, ESPECIALLY IF THE DUTY ON PROCESSED TIMBER PRODUCTS WAS REDUCED FROM 5 PERCENT TO ZERO. MR. KOMOTO RESPONDED THAT

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SUCH A STEP WOULD CREATE SEVERE DIFFICULTIES FOR JAPANESE INDUSTRY. HE ARGUED, HOWEVER, THAT THE PRESENT LOW JAPANESE DUTIES (5 O/O) ON PROCESSED TIMBER PRODUCTS DO CREATE EXPORT OPPORTUNITIES IN THE JAPANESE MARKET. THE GOM ALSO ASKED THE JAPANESE TO CONSIDER REDUCING THE TARIFF ON PALM OIL FROM 4 PERCENT TO ZERO.

MR. KOMOTO REPLIED THAT THIS WAS UNLIKELY AND SAID THE PALM OIL WAS ALREADY COMPETING VERY EFFECTIVELY IN THE JAPANESE MARKET. WITH REGARD TO THE MALAYSIAN REQUEST FOR AN INCREASE IN THE IMPORT OF CANNED PINEAPPLE, MR. KOMOTO REPLIED THAT JAPAN'S DOMESTIC INDUSTRY IN OKINAWA NEEDED PROTECTION BUT THAT THE GOJ WAS CONSIDERING AN INCREASE IN ITS WORLD WIDE QUOTA AND MALAYSIA COULD EXPECT TO BENEFIT FROM SUCH A STEP. ON THE TOPIC OF THE MTN NEGOTIATIONS, THE MALAYSIAN SIDE EXPRESSED DISSATISFACTION THAT THE JAPANESE OFFER OF 30 ITEMS FOR TARIFF REDUCTION ONLY INCLUDED ONE ITEM (SHRIMP) OF ANY REAL INTEREST TO MALAYSIA. THE GOM SIDE REQUESTED THAT THE JAPANESE IMPROVE THEIR OFFER. HE JAPANESE RESPONDED THAT THEY WOULD CONSIDER DOING SO.

4. IN HIS MEETING WITH MR. KOMOTO, THE DPM REQUESTED THAT THE GOJ GIVE CONSIDERATION TO CUTTING BACK ON DOMESTIC JAPANESE UREA PRODUCTION SO AS TO INCREASE THE COMMERCIAL VIABILITY OF THE ASEAN UREA PROJECTS IN INDONESIA AND MALAYSIA. ACCORDING TO SOURCES IN THE JAPANESE EMBASSY, THIS PROPOSAL CREATED CONSIDERABLE DISCOMFORT FOR KOMOTO AS IT INDICATED A PROFOUND LACK OF UNDERSTANDING OF THE POLITICAL DIFFICULTIES THE GOJ FACES. REPORTEDLY, THE GOJ HAS ONLY BEEN ABLE TO CONVINCE JAPANESE UREA PRODUCERS TO RELUCTANTLY CUT BACK ON THEIR PRODUCTION AFTER CONSIDERABLE ARMTWISTING. FOR THE MALAYSIANS TO NOW ASK FOR EVEN GREATER CUTBACKS INDICATES TO THE JAPANESE THAT THEIR PREVIOUS EFFORTS ARE NOT FULLY APPRECIATED AND THEIR POLITICAL PROBLEMS

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ENTIRELY IGNORED. IN ANY CASE, OUR JAPANESE SOURCES BELIEVE LITTLE WILL COME OF THIS REQUEST.

5. ON THE TOPIC OF INVESTMENT, DR. MAHATHIR REQUESTED THAT THE JAPANESE GIVE CONSIDERATION TO EXPORTING THEIR LABOR INTENSIVE AND LOW TECHNOLOGY INDUSTRIES TO MALAYSIA. MR. KOMOTO INDICATED THAT WHILE THIS WAS A POSSIBILITY, THE MAIN RESPONSIBILITY IN THE AREA OF INVESTMENT RESTED WITH THE GOJ ITSELF. HE URGED THE MALAYSIAN GOVERNMENT TO TAKE SERIOUS STEPS TO IMPROVE ITS INVESTMENT CLIMATE, ESPECIALLY AS REGARDS TO THE CONTROVERSIAL INDUSTRIAL COORDINATION ACT.

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GENEVA FOR MTN/GRAEF

INTERESTINGLY, MR. KOMOTO AGAIN RAISED THIS ISSUE IN PUBLIC (SOMETHING NO OTHER FOREIGN OFFICIAL HAS DONE) IN HIS FINAL PRESS CONFERENCE. THIS WAS REPORTEDLY DONE AT THE URGING OF THE JAPANESE EMBASSY HERE WHICH IS CONCERNED OVER THOSE ACTIONS OF THE GOM WHICH IMPACT ON JAPANESE INVESTORS.

6. ON THE AID SIDE, MR. KOMOTO ANNOUNCED THAT JAPAN AND MALAYSIA ARE CLOSE TO FINAL AGREEMENT ON THE PROJECTS TO BE FINANCED UNDER THE FOURTH YEN CREDIT OF US\$85 MILLION AND WOULD COMMENCE NEGOTIATIONS SHORTLY ON A FIFTH CREDIT FOR THE SAME AMOUNT. NONE OF THIS IS NEW, HAVING BEEN AGREED TO PREVIOUSLY. IT SHOULD BE NOTED THAT THESE ARE THE CREDITS WHICH HAVE CREATED SUBSTANTIAL DIFFICULTIES FOR

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AMERICAN EXPORTERS INTERESTED IN MAJOR PROJECTS IN MALAYSIA.

7. SEVERAL INTERESTING POINTS EMERGED IN THE AREA OF PETROCHEMICALS. MR. KOMOTO INFORMED THE MALAYSIANS THAT THE JAPAN PETROLEUM DEVELOPMENT CORPORATION HAS BEEN RENAMED THE JAPAN PETROLEUM CORPORATION AND THAT THIS ENTITY WOULD BE INTERESTED IN DISCUSSING WITH MALAYSIA'S NATIONAL OIL COMPANY, PETRONAS, ANY FINANCING OR OTHER ASSISTANCE THAT THE JAPANESE MIGHT BE ABLE TO OFFER. THE GOM EXPRESSED CONCERN BECAUSE THE GOJ HAS PROMISED TO ASSIST THE INDONESIANS WITH AN LNG PROJECT WHILE AT THE SAME TIME THE MALAYSIANS ARE PLANNING TO MARKET THEIR LNG IN JAPAN. MR. KOMOTO ASSURED THE GOM THAT JAPANESE DEMAND WAS SUCH THAT BOTH PROJECTS WERE NEEDED.

8. A CONSIDERABLE AMOUNT OF MISUNDERSTANDING AROSE OVER A JAPANESE PROPOSAL TO BUILD SELF-CONTAINED ELECTRIC POWER GENERATION PLANTS ON BARGES WHICH WOULD BE LEASED TO COUNTRIES IN ASEAN AT CONCESSIONAL

RATES. THIS SCHEME IS REPORTEDLY A FAVORITE OF KOMOTO'S AND BASICALLY WOULD ENTAIL THE PURCHASE OF POWER GENERATION EQUIPMENT FROM THE US OR EUROPE (THUS HELPING THE BALANCE OF TRADE PROBLEM), INSTALLING IT ON BARGES IN JAPAN'S ECONOMICALLY TROUBLED SHIPYARDS (THUS HELPING THEM OUT BY PROVIDING LUCRATIVE CONTRACTS) AND LEASING THEM ON CONCESSIONAL TERMS TO DEVELOPING NATIONS IN SOUTHEAST ASIA, WHICH WOULD BENEFIT BY BEING ABLE TO QUICKLY INSTALL POWER PLANTS AT INACCESSIBLE SITES FOR A REASONABLE PRICE. THE MALAYSIAN SIDE, ACCORDING TO SOURCES IN THE JAPANESE EMBASSY, COMPLETELY MISUNDERSTOOD THE

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NATURE OF THIS PROJECT AND THOUGHT THAT IT WAS AN ATTEMPT BY THE JAPANESE TO SEEK OUT NEW MARKETS FOR THEIR PRODUCTS. OUR JAPANESE SOURCES INFORM US THAT MORE LIGHT NEEDS TO BE SHED ON THIS SUBJECT.

9. THE GOM VERY MUCH WANTED TO OBTAIN SOME SORT OF COMMITMENT TO A STABEX AGREEMENT BETWEEN JAPAN AND ASEAN. KOMOTO QUICKLY SIDESTEPPED THIS DIFFICULT AREA BY SUGGESTING THAT TALKS BE CARRIED OUT AT THE EXPERT LEVEL SOMETIME BEFORE THE NEXT JAPAN/ASEAN MEETING (FOR WHICH NO DATE HAS YET BEEN SET).

10. COMMENT: CLEARLY, ENTIRELY DIFFERENT REACTIONS WERE GENERATED AS A RESULT OF KOMOTO'S VISIT. THE JAPANESE ARE QUITE PLEASED WITH THE TALKS BECAUSE (A) THEY PUBLICLY REAFFIRMS THEIR INTEREST IN ASEAN, (B) THEY WERE ABLE TO EXPLAIN SOME OF THE POLICY CONSTRAINTS THEY FACE IN JAPAN, AND (C) THEY COMMITTED THEMSELVES TO NOTHING NEW. SOURCES IN THE GOM'S MINISTRY OF TRADE AND INDUSTRY TELL US THAT THEIR REACTION IS ONE OF DISAPPOINTMENT. THE JAPANESE MADE NO NEW COMMITMENTS AND WERE PARTICULARLY INTRANSIGENT ON TRADE MATTERS, THE AREA IN WHICH THE MALAYSIANS MOST HOPED FOR A BREAKTHROUGH. FROM THE GOM'S POINT OF VIEW, THE VISIT CLEARLY WILL CAUSE SOME REASSESSMENT OF THE EUPHORIA THAT SURROUNDED THE QUESTION OF JAPANESE/ASEAN RELATIIONS AFTER THE MEETINGS IN KUALA LUMPUR LAST AUGUST.

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Message Attributes

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